

Jay Bennett  
Director-  
Federal Regulatory

SBC Communications Inc.  
1401 I Street, N.W.  
Suite 1100  
Washington, D.C. 20005  
Phone 202 326-8889  
Fax 202 408-4805



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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

**Memorandum of Ex Parte Communication**

Magalie Salas  
Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

Dear Ms. Salas:

Re: *CC Docket No. 96-98 – Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; Regarding Reciprocal Compensation for Information Service Provider Traffic*

Today the attached material was delivered to Tamara Preiss of the Competitive Pricing Division. We are submitting the original and one copy of this Memorandum to the Secretary in accordance with Section 1.1206(b)(2) of the Commission's rules.

Please stamp and return the provided copy to confirm your receipt. Please contact me at (202) 326-8889 should you have any questions.

Sincerely,

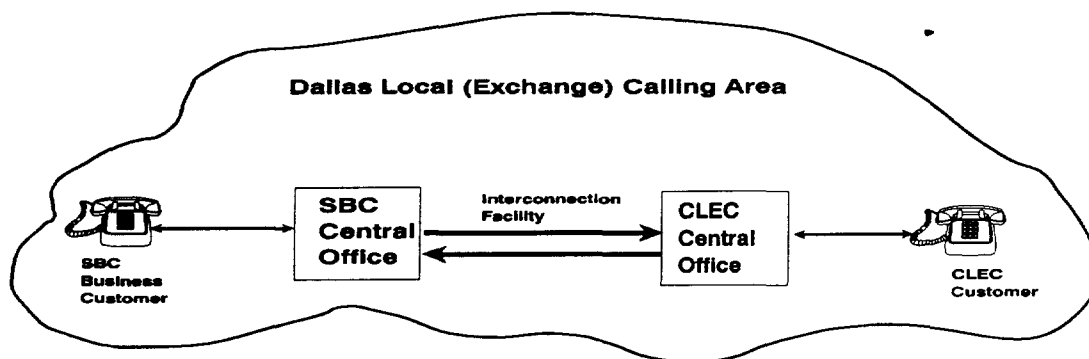
A handwritten signature in cursive script, appearing to read "Jay Bennett", written over a horizontal line.

Attachment

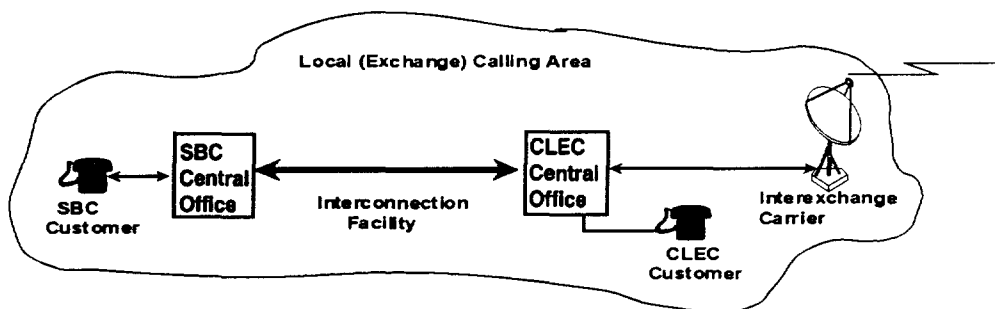
cc: T. Preiss

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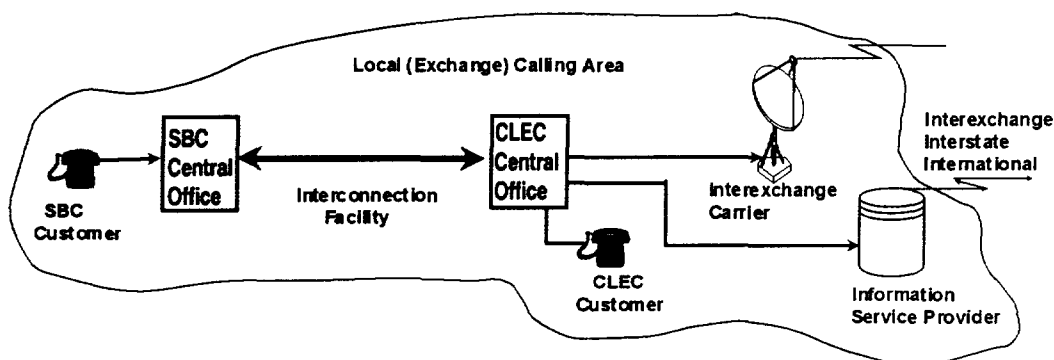
## Reciprocal Compensation Should Not Apply to Internet Traffic



Reciprocal Compensation was designed for traffic flowing between local carriers in two directions. Each carrier bills its customers for originating local calls and pays the other to terminate local calls.



For long distance calls, the long distance carrier collects revenues from end-user customers and pays each local provider for utilizing their network to complete calls.



Internet calls are routed in the same manner as long distance calls, with the Internet provider (IP) collecting revenues from the end-user. Here, however, the traffic flows only in one direction and the IP only pays the carrier (the "CLEC") connecting to the Internet provider. If reciprocal compensation is imposed on Internet traffic, SBC alone would pay CLECs \$150 million in 1998 without additional revenue to offset this new cost.

## **Reciprocal Compensation for Internet Traffic** **Distorts Marketplace Economics**

- If imposed on Internet traffic, reciprocal compensation payments to competitive local exchange carriers (“CLECs”) are estimated to reach \$600 million in 1998.
- By signing up Internet providers as customers, competitors want to bill GTE and Bell Companies for Internet traffic that all flows in one direction. Some CLECs have offered free service (or even payment) to Internet providers in order to claim reciprocal compensation payments.
- Internet calls last much longer than local voice calls. At one extreme, if an Internet connection were left up continuously, SBC could be required to pay a CLEC \$388.80 (24 hours x 60 minutes x \$.009 per minute x 30 days). SBC would collect only about \$25.00 from the Internet end-user. That is a net loss of \$364.
- Applying reciprocal compensation to Internet traffic is a disincentive to network investments and local competition for all carriers. Why would any company choose to build out a network and compete for residential customers when faced with the potential of losing money on every customer?
- At the same time the local exchange carriers are having to make significant capital investments to deliver traffic to other carriers for delivery. Bell Atlantic has estimated its trunking additions and switch upgrades for this at almost \$300 million in 1998 and double that amount in 1999.
- Bear Stearns financial analyst James Henry advised that “nearly 80% of the reciprocal compensation payments are going to other large carriers like MCI and WorldCom.”
- The Maine Public Utilities Commission is investigating one CLEC for obtaining 52 NXX codes (central office routing codes), while not providing any local service. This practice allows the CLEC to avoid paying access charges, its customers avoid toll charges and the CLEC might even seek reciprocal compensation payments. Additionally, this will contribute to the exhaustion of such codes and may necessitate adding a second area code in Maine.
- The FCC has repeatedly found Internet traffic to be interstate, not local. The October 30<sup>th</sup> ruling on GTE’s “DSL” tariff was the FCC’s latest reaffirmation.
- When negotiating interconnection agreements *for local traffic*, SBC properly viewed Internet traffic as interstate and therefore not subject to reciprocal compensation.